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BEFORE THE ARIZONA CORPORATION COMMISSION

ROBERT "BOB" BURNS

Chairman

BOYD DUNN

Commissioner

SANDRA D. KENNEDY

Commissioner

JUSTIN OLSON

Commissioner

LEA MÁRQUEZ PETERSON

Commissioner

IN THE MATTER OF THE APPLICATION
 OF TUCSON ELECTRIC POWER
 COMPANY FOR APPROVAL OF AN
 ORDER IN CONNECTION WITH TUCSON
 ELECTRIC POWER COMPANY JOINING
 THE WESTERN ENERGY IMBALANCE
 MARKET.

DOCKET NO. E-01933A-20-0039

DECISION NO. **77746**ORDER

**TUCSON ELECTRIC POWER
 COMPANY'S REQUEST TO DEFER
 AND RECOVER CERTAIN COSTS**

Open Meeting
 September 22 and 23, 2020
 Phoenix, Arizona

Arizona Corporation Commission

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BY THE COMMISSION:

FINDINGS OF FACT**Background**

1. On February 26, 2020, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Arizona Corporation Commission ("Commission") for approval of an accounting order that authorizes it to defer the projected Operations and Maintenance ("O&M") costs associated with the implementation phase of its proposed membership in the Western Energy Imbalance Market ("EIM"). TEP states that its proposed accounting order will enable it to recover the deferred implementation costs from the benefits derived from its EIM membership, prior to these benefits being passed on to ratepayers. TEP will only recover deferred EIM implementation O&M costs from its ratepayers if its EIM membership generates adequate savings to cover these costs.

2. TEP reports that it entered into an agreement with the California Independent System Operator ("CAISO") to join the EIM, beginning in April 2022. TEP states that the EIM was launched by CAISO in 2014, and that the EIM "is a real-time bulk power trading market, the first

1 of its kind in the western United States. The Western EIM's advanced market systems automatically
2 find the lowest-cost energy to serve real-time customer demand across a wide geographic area.
3 Utilities will maintain control over their assets and remain responsible for balancing requirements
4 while sharing in the cost benefits the market produces for participants. Since launching in 2014, the
5 Western EIM has enhanced grid reliability and generated cost savings in the millions for its
6 participants. Besides its economic advantages, the EIM improves the integration of renewable
7 energy, which leads to a cleaner, greener grid."¹ The Company states that several Western utilities,
8 including Arizona Public Service Company, already generate substantial savings to their ratepayers
9 through EIM membership.

10 **Application**

11 3. TEP is requesting Commission approval of an accounting order that authorizes it to
12 defer no more than \$10 million of estimated O&M costs associated with the implementation phase
13 of its proposed EIM membership. The Company states that if the Commission approves its
14 requested accounting order to defer EIM implementation O&M costs, deferred costs would be
15 recovered solely from savings derived from its EIM membership. TEP proposes a three-year EIM
16 implementation process that includes hiring of new employees, training of new and existing
17 employees on new systems and business processes, performance of significant software updates, as
18 well as substantial system and communications integration. TEP projects incurring \$2 million of
19 EIM implementation O&M costs in 2020, \$4 million in 2021, and \$4 million in 2022, for a total of
20 \$10 million.

21 4. TEP estimates that its EIM membership will result in \$10 million of EIM Related
22 Short-Term Wholesale Revenues in 2022, and \$13 million annually starting in 2023. TEP proposes
23 to recover \$2 million of deferred EIM implementation O&M costs in 2022, which would result in a
24 net savings of \$8 million, that will be to the benefit of its ratepayers. For 2023 and 2024, TEP
25 projects an annual net savings of \$9 million, after deducting \$4 million of deferred EIM
26 implementation costs. The Company states that beginning in 2025, future estimated annual cost
27

28 ¹ <https://www.westerneim.com/Pages/About/default.aspx>

1 savings of \$13 million will fully benefit its ratepayers. TEP proposes to provide the benefits of the
2 net savings associated with its EIM membership directly to the ratepayers through the Purchased
3 Power and Fuel Adjustor Clause ("PPFAC"). Finally, TEP believes that Commission approval of
4 its proposed accounting order is in the public interest as it matches the recovery of deferred EIM
5 implementations O&M costs directly to savings attributable to its EIM membership, without any
6 recourse to recovering deferred costs from its ratepayers.

7 **Staff Analysis and Recommendations**

8 5. Commission Utilities Division Staff ("Staff") has reviewed TEP's proposed cost
9 savings associated with the membership in the EIM, and its request for Commission approval of an
10 accounting order to defer EIM implementation O&M costs, in an aggregate amount not to exceed
11 \$10 million. Staff also evaluated the Company's proposal to recover deferred EIM implementation
12 O&M costs directly from the anticipated benefits from TEP's EIM membership from 2022 through
13 2024, and to pass all net savings to its ratepayers through the PPFAC. Staff concurs with TEP that
14 its proposed membership in the EIM is in the public interest as it is projected to provide an annual
15 net energy cost savings to its ratepayers, without any risk of increasing future cost of service to its
16 customers.

17 6. The Staff engineering section reviewed the Company's application, the three-year
18 Implementation Plan, and the projected EIM implementation O&M costs of \$10 million. A detailed
19 Staff Engineering analysis is attached herewith as Exhibit A. Staff concludes as follows:

- 20 a) The Company's participation in the Western Energy Imbalance Market is
21 likely to result in cost savings to customers, increased operational flexibility
22 and improved reliability.
- 23 b) The three-year Implementation Plan is comprehensive, reasonable, and
24 appropriate.
- 25 c) The Company's estimated O&M costs, related to joining the EIM, appear to
26 be reasonable. However, Staff makes no determinations nor any conclusions
 for ratemaking purposes.

27 7. Staff finds that Commission approval of TEP's application for an accounting order
28 to defer O&M costs associated with the implementation of its EIM membership is appropriate and

1 in the public interest. Staff's analysis indicates that TEP's proposal could provide continuous benefit
2 to its ratepayers through projected energy cost savings, without passing the associated EIM
3 implementation O&M costs to the ratepayers. Staff agrees with TEP that if the projected energy
4 savings from its EIM membership are realized, the savings will be adequate to cover deferred EIM
5 implementations O&M costs and provide an annual net benefit to its ratepayers. Based on the
6 Company's projections, its EIM membership will result in a net savings of \$8 million in 2022, and
7 \$9 million in 2023 and 2024. Starting in 2025, the Company projects annual savings of \$13 million,
8 the full benefit of which will be passed to the ratepayers through its PPFAC. Based on these findings,
9 Staff recommends the following:

- 10 a) That the Commission authorize an accounting order to defer TEP's O&M
11 implementation costs associated with its EIM membership, in amount not to
12 exceed \$10 million, for recovery only through energy cost savings derived
13 from its EIM membership, between 2022 through 2024.
- 14 b) That should TEP not realize cost savings from its membership in the EIM
15 sufficient to cover the O&M implementation costs, that TEP not be allowed
16 to recover these costs through other means from its ratepayers.
- 17 c) That TEP create a regulatory asset account, consistent with all Federal Energy
18 Regulatory Commission ("FERC"), Generally Accepted Accounting
19 Principles ("GAAP") and any other accounting standards, to record the
20 deferred EIM implementation O&M costs, authorized herein.
- 21 d) That TEP creates and maintains adequate accounting records sufficient to
22 permit a detailed review of the deferred costs, the revenues and the savings
23 associated with its membership in the EIM.
- 24 e) That TEP shall submit as a compliance filing, a summary of all deferred costs
25 as well as the annual revenues and associated savings derived from its EIM
26 membership, along with its annual application to adjust the PPFAC rate, by
27 February 1 of each year.
- 28 f) That nothing in this Decision shall be construed in any way to limit this
Commission's authority to review the entirety of the EIM implementation
costs, or disallowance for recovery through the PPFAC and/or in a rate
proceeding due to imprudence, errors, or inappropriate application of the
requirements of this Decision.

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1 8. The Commission believes the estimated costs and savings reflected in Findings of
2 Fact No.4 represent an effort to achieve gradualism for both the company and its customers, but only
3 if the actual amount of annual gross savings in 2022, 2023, and 2024 are as TEP estimates them to
4 be. Due to uncertainty inherent in projections, however, there is a chance annual gross savings could
5 be lower than TEP projects.

6 9. Under Staff's recommendation, if the amount of annual gross savings is too "low"
7 relative to the amount of deferred O&M for the year, TEP would recover its full costs, but TEP's
8 customers would receive little to no benefit. This outcome would be unacceptable, as TEP's cost
9 recovery should not be guaranteed while ratepayers receive no benefit. Because the entire premise
10 of the requested accounting order is to allow TEP to seek recovery of costs that it might not otherwise
11 be able to recover in a rate case, the Commission wants to see that there is a real benefit to customers.
12 In approving this accounting order, the Commission wants to ensure that there is a balance of the
13 benefits between TEP and its customers, including a balance in the event actual gross annual savings
14 are less than TEP anticipates. Therefore, the Commission has an interest in trying to protect the
15 benefits consumers are expected to receive from TEP's participation in the EIM, and the
16 Commission believes a mechanism that would give ratepayers the same opportunity to reap the
17 projected benefits of the EIM program as TEP is being given to recover its implementation costs is
18 appropriate. The sharing of the costs and benefits may serve as a performance incentive mechanism
19 that protects the consumers' interest by incentivizing TEP to earn the full amount of its requested
20 recovery by maximizing its participation in the EIM and, therefore, the amount of annual gross
21 savings that can flow to customers.

22 10. Accordingly, the Commission finds it reasonable and in the public interest to cap the
23 allowable deferred O&M costs at 50 percent of the annual gross savings in a particular year or the
24 costs TEP has proposed for the same year (i.e., \$2 million in 2022, \$4 million in 2023, and \$4 million
25 in 2024), whichever is less. This approach has the effect of a 50-50 split on the gross annual savings
26 between TEP and its customers, which is consistent with other decisions the Commission has issued,
27 but with a cap on TEP's share of the savings, which is consistent with TEP's application. Unlike the
28 cap on TEP's share of the energy cost savings, there is no cap on the benefits that can flow through

1 to customers. This approach will incentivize TEP to maximize its membership in the EIM during
2 each of the respective years so it can earn the full amount of its deferred O&M expenses, which, in
3 turn, will maximize the potential benefits to its customers, which is the basis for approval of TEP's
4 application.

5 CONCLUSIONS OF LAW

6 1. Tucson Electric Power Company is an Arizona public service corporation within the
7 meaning of Article XV, Section 2 of the Arizona Constitution.

8 2. The Commission has jurisdiction over Tucson Electric Power Company and the
9 subject matter of this application.

10 3. The Commission, having reviewed Tucson Electric Power Company's application
11 and Staff's Memorandum, concludes that it is in the public interest to approve Tucson Electric Power
12 Company's requested accounting order to defer EIM implementation operation and maintenance
13 costs for recovery through the Purchased Power and Fuel Adjustor Clause, as discussed herein.

14 ORDER

15 IT IS THEREFORE ORDERED that Tucson Electric Power Company is hereby authorized
16 an accounting order to record and defer operations and maintenance costs associated with the
17 implementation phase of its proposed membership in the Western Energy Imbalance Market, in an
18 amount not to exceed \$2 million in 2022, \$4 million in 2023, and \$4 million in 2024, for recovery
19 only from energy cost savings derived from its membership in each of those respective years, without
20 the option to seek recovery from the ratepayers through other means.

21 IT IS FURTHER ORDERED that for 2022 Tucson Electric Power Company's recovery of
22 deferred operating and maintenance costs associated with the implementation phase of its proposed
23 EIM membership is capped at the lesser of 50 percent of the total gross energy cost savings derived
24 from its membership in 2022 or \$2 million.

25 IT IS FURTHER ORDERED that for 2023 Tucson Electric Power Company's recovery of
26 deferred operating and maintenance costs associated with the implementation phase of its proposed
27 EIM membership is capped at the lesser of 50 percent of the total gross energy cost savings derived
28 from its membership in 2023 or \$4 million.

1 IT IS FURTHER ORDERED that for 2024 Tucson Electric Power Company's recovery of
2 deferred operating and maintenance costs associated with the implementation phase of its proposed
3 EIM membership is capped at the lesser of 50 percent of the total gross energy cost savings derived
4 from its membership in 2024 or \$4 million.

5 IT IS FURTHER ORDERED that Tucson Electric Power Company shall create a regulatory
6 asset account, consistent with the Federal Energy Regulatory Commission, Generally Accepted
7 Accounting Principles and any other accounting standards, to record and defer the implementation
8 operations and maintenance costs associated with its proposed membership in the Western Energy
9 Imbalance Market.

10 IT IS FURTHER ORDERED that Tucson Electric Power Company shall create and maintain
11 adequate accounting records sufficient to permit a detailed review of the deferred costs, the revenues
12 and the savings associated with its membership in the Western Energy Imbalance Market, in all
13 future proceedings.

14 IT IS FURTHER ORDERED that Tucson Electric Power Company shall submit as a
15 compliance filing, a summary of all deferred costs as well as the annual revenues and associated
16 savings derived from its membership in the Western Energy Imbalance Market, along with its annual
17 application to adjust the Purchased Power and Fuel Adjustor Clause rate, by February 1 of each year.

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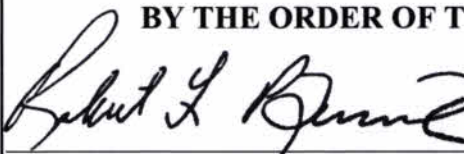
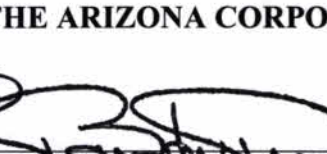

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1 IT IS FURTHER ORDERED that nothing in this decision shall be construed in any way to
2 limit the Commission's authority to review the entirety of the implementation costs associated with
3 Tucson Electric Power Company's membership in the Western Energy Imbalance Market, for
4 possible disallowance for recovery through a review of the Purchased Power and Fuel Adjustor
5 Clause and/or in a rate proceeding due to imprudence, errors, or inappropriate application of the
6 requirements of this Decision.

7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

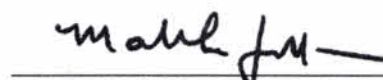
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12 CHAIRMAN BURNS
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14 COMMISSIONER DUNN
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16 COMMISSIONER KENNEDY

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18 COMMISSIONER OLSON

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20 COMMISSIONER MÁRQUEZ PETERSON



21 IN WITNESS WHEREOF, I, MATTHEW J. NEUBERT,
22 Executive Director of the Arizona Corporation Commission,
23 have hereunto, set my hand and caused the official seal of this
24 Commission to be affixed at the Capitol, in the City of
25 Phoenix, this 2nd day of October, 2020.

26 
27 MATTHEW J. NEUBERT
28 EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EOA:All:elr/PRP

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